

TOKYO GAZETTE

A MONTHLY REPORT OF CURRENT POLICIES,
OFFICIAL STATEMENTS AND STATISTICS

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The material in the TOKYO GAZETTE is selected mainly from the *Weekly Report*, edited by the Bureau of Information. The accuracy and comprehensiveness of data presented in the *Report* are fully established. For the benefit of students of Japanese affairs, the TOKYO GAZETTE is endeavouring to maintain these qualities in the hope that its publication will eliminate unfortunate misunderstandings and thus contribute to world peace and international goodwill.

KOREANS AND THE CHINA AFFAIR

GOVERNMENT-GENERAL OF CHOSEN

PATRIOTIC movements arising among Koreans through the impelling force of the present China Affair constitute an epoch-making phenomenon. In marking the 27th anniversary of the Japanese administration of the Government-General which came in October, 1937, these movements were of far greater significance than any formal celebration. Moreover, they have spread beyond the boundaries of the peninsula into Japan proper, Manchoukuo, North China, Shanghai and all other places where Korean communities exist.

The remarkable manifestation of patriotism on the part of Koreans as members of the Japanese nation may come as a pleasant surprise to close observers of Korean affairs at home and abroad. Such an attitude toward Japan is, in reality, something which has not sprung up with the outbreak of the present incident but has been fostered, since the Manchurian Affair in 1931, through the increase of understanding by Koreans of Japan's status among world Powers as the promoter and guarantor of prosperity and stability in East Asia. The genuine enthusiasm of their patriotism, however, has been deeply significant and more than could be expected: it has been demonstrated almost in an equal degree as that of the Japanese, and in this demonstration even those masses in the lower strata of society, including women and children, who were naturally regarded as having little appreciation of the present emergency, have not been behind others. Accordingly, Mr. Rokuichiro Ohno, Deputy Governor-General, in a radio broadcast from Keijo (Seoul) on September 8, 1937, bore testimony to the fact. He stated in part:

The two peoples of Japan and Korea, between which there may have been a close ethnic bond in ancient times, gradually developed their respective languages, customs and manners not at all in common as they were long separated by the sea. Naturally they experienced certain difficulties, even after the annexation, in gaining a community of sentiment and ideas as the members of the Japanese nation. Alienation was manifested on the part of the Koreans during one stage of the Japanese rule in various unfortunate incidents, and was regarded on the part of the Japanese as something irreconcilable, in the depth of

their minds. Since the years following the Manchurian Affair, however, this gloomy state of affairs has gradually been improved and a bright atmosphere has come to permeate the whole peninsula. With the present affair a slight coolness that may still have persisted between certain quarters of the two peoples has been perfectly eliminated. This fusion of the two peoples, a complete union in ardent patriotism as members of the Japanese nation, I am strongly convinced, is something which can be conceived not in terms of administrative and political policies but in terms of Providence and human destiny. The two peoples are, to my mind, destined to be one in purpose, aspirations and ideals.

Outstanding Instances of Patriotism

Highly significant was the statement of the Deputy Governor-General, but what were the facts on which his statement had been based? Many highly remarkable instances of the manifestation of the patriotic sentiment, quite similar in nature and extent to those found in Japan proper, have been reported, and it would be but arbitrary to select a few of them as outstanding. In view, however, of the history and characteristics of the Korean people, the following can be offered as the most noteworthy instances.

Movements within various ideational, religious, quasi-religious and cultural organizations are truly indicative of the new trend. The Daito Minyu-kai, a young men's organization composed mainly of those converted from the communist movement, has been actively engaging for these two years in an educational campaign, earnestly advocating pan-Asianism on the basis of its newly grasped conception of the world situation. This organization was first to rise to the occasion, intensifying and enlarging its educational activities, particularly with reference to the present emergency, which action of course greatly influenced the thinking and activities of young Korean intellectuals all over the peninsula.

As for quasi-religious organizations, the Chonto-kyo is the largest and most influential with some 1,000,000 adherents. This group acted as the central force in the insurrection of 1919, made a turn in the direction of patriotism during the Manchurian Affair, and has now taken a clear and definite stand along the latter line, cooperating with other organizations of similar nature such as the Shicho-kyo and the Sanze-kyo in the activities of enlightening their adherents, raising the national defence fund, and comforting the families of solidiers at the front. Nor has the organization of Confucian

scholars been behind other groups in responding to the nation's call. Formerly, these scholars were blind admirers of things Chinese, influenced naturally by their study of the Chinese classics. The present affair, however, has entirely changed their conception of the neighbouring Republic, as they had already been disillusioned with regard to her culture and actual conditions following the affair of 1931. They were awakened to the cultural mission of the Japanese Empire as the guardian of the moral principles of the East. Accordingly, they have been carrying out programmes of education on the significance of the present affair and have conducted religious services in support of the national cause of Japan. This attitude of Confucian scholars in the communities where the Confucian system of ideas persists as a strong cultural force has had far-reaching influence on the popular mind.

Most significant, however, is the change in the attitude of the Christian Churches. Both the Protestant and Roman Catholic Churches, the most important and powerful religious organizations in Korea, with a long history of missionary activities and of Western influences, which in the past had frequently taken an attitude of non-cooperation with the Japanese administration, and further had identified themselves with movements of the narrow type of Korean nationalism, now stand definitely for the cause of the Japanese Empire. All denominations and missions, one after another, have held services and prayer meetings specially for the Imperial forces and their Japanese and Korean brothers in China. Special campaigns of education have also been effectively conducted, with the result that large contributions have been collected for the national defence fund. A word concerning the activities of Baron Yun Chi-ho, a famous Christian leader, may be relevant in this connection.

Baron Yun has long been regarded as the foremost Christian leader and educator in Korea. He has taken the lead, since the outbreak of the present affair, in the united movement of all religious and quasi-religious organizations for upholding the cause of the Empire through religious services and educational meetings in which he has acted as chairman and as one of the principal speakers. He has, moreover, contributed 5,000 yen toward the defence fund, thus encouraging his Korean associates by word and deed in devotion to the great national cause. His former status as a distinguished diplomat in the old Korean Government and his recognized leadership of long standing in Christian as well as Korean nationalist movements must undoubtedly have rendered his change of attitude and activities peculiarly valuable in promoting a sense

of unity and patriotism among Koreans as members of the Japanese nation, especially among those groups which had long been regarded as most antagonistic.

Under these circumstances, it is natural that Korean organizations working for the union of the two peoples and the realization of the pan-Asiatic ideal such as the Jichu-kai, Daito Doshi-kai and Toi-kai should respond to this great united patriotic movement. Patriotic organizations composed jointly of Japanese and Koreans such as the Imperial Association for Supporting the Men in the Services, Red Cross Society, Navy Association, Volunteer National Defence Association, Provincial Unions of Young Men's Associations, Social Welfare Work Association and Union of Cultural Work Associations have also joined in the movement which has swept the entire peninsula.

This tide of rising patriotism has also carried in its stream newspapers in vernacular Korean, many of which had persisted until recently in Korean nationalism. It was one of these that gave rise to public discussion at the time of the Olympic Games in 1936 by reproducing a picture of Mr. Son Ki-zun, Korean winner of the Marathon race, after erasing the rising sun mark on his breast. The Korean language papers have not only changed their tone with the exaltation of patriotic sentiment, but have also taken the lead in advocating and emphasizing the complete unity of the two peoples and the united front of the Empire.

Activities of women's organizations are extraordinary phenomena in Korean life, especially among the upper classes. Traditionally, women are discouraged from engaging in any activities outside their own homes; but now they cannot keep themselves from expressing ardent patriotic sentiments. Accordingly, the Patriotic Gold Hair-Pin Association has been organized in Keijo for the purpose of doing its share in serving the country on the home front. On the occasion of its inaugural meeting, its president, Viscountess Yun Duk-yen, and many of its members offered their gold hair-pins, which are regarded as the invaluable articles commemorating their weddings, toward the defence and comfort funds.

Outside the Peninsula

Koreans living without the peninsula have also been captured by the same sentiment of patriotism in an equal, if not higher, degree. In particular, those living in China, where the effect of the affair has been immediate, have offered themselves in direct service to their country. In Tientsin, immediately following the outbreak of the

incident near Marco Polo Bridge, some 200 Korean young men organized themselves as a special volunteer corps and served daringly under the command of an officer of the Imperial Army in constructing defence works and bridges, effecting communications, carrying and caring for the sick and wounded soldiers, and in many other useful ways. Some of them, while assisting garrison forces in defending the town, were wounded and others died. On one occasion when a death band was organized to effect communication between severed lines of our commissariat, many of them immediately volunteered themselves as its members, to the grateful emotion of Japanese officers and men. Not a few Koreans at present are on the North China front as members of automobile corps, and their letters sent home truly embody the highest spirit as members of the Japanese nation.

Koreans in Shanghai have not been at all backward in demonstrating their sentiment for the Empire. They have been engaging in important activities behind the lines under the best discipline. Many of them have rendered valuable service to the Army, acting as interpreters and chauffeurs. Some 180 men remained even after the general evacuation of Japanese residents, relieving the regular soldiers of all kinds of fatigue duties. Furthermore, what has moved the hearts of the military authorities was their act of self-sacrifice in contributing 400 yen toward the comfort fund out of their needy purses.

The complex character of Shanghai as an international city has facilitated in the past all kinds of underhanded activities of an international nature, and a fair number of Koreans who were staunch adherents of Korean nationalism and Communism and who had intimate relations with the Kuomintang as well as with the Chinese Communists have been living there. The Chinese authorities in Shanghai, however, have completely changed their attitude toward those Koreans since the outbreak of the affair, subjecting Japanese and Koreans alike to atrocious treatment. The Japanese authorities, on the contrary, have extended protection even to those on the black-list on ideational charges. This generous attitude of the latter has awakened radical Koreans to the sense of their being members of the Japanese nation. "We Koreans have realized for the first time the blessing of living under the flag of the rising sun," has been their confession, which undoubtedly represents the minds of the 39,000 Koreans in China.

As Koreans are not subjected to the conscription system, there have been no Korean regular soldiers fighting at the front. There have, however, been several regular officers in the Imperial Army

who are fighting as ably as their Japanese colleagues. Major Kim, in command of a certain unit, fought most daringly at Nanyüan. In view of these manifestations of ardent patriotism and in response to the earnest and sincere wishes of Korean young men to share the responsibility of national defence, a system of voluntary service in the regular army is now being framed, and is expected to be carried out in April.

In Manchoukuo approximately 900,000 Koreans are joyfully contributing to the ideal of the moral Empire established on the principles of cooperation and concord of all its peoples. Their activities in support of the present Japanese endeavours have been conducted somewhat along the same lines as in Korea, and under the leadership of such organizations as the Korean People's Association and the Korean Branch of the Kyowa-kai (the Society for Promoting Cooperation and Concord of Peoples). There have of course been many individual cases of remarkable expressions of patriotism.

Expression of the same sentiment among the 800,000 Koreans living in Japan proper has naturally taken different forms. A significant aspect has been the decision not to act separately as Korean groups but to participate in general activities. This participation of Koreans in general movements is producing the highly satisfactory result of eliminating misunderstandings and prejudices which had unfortunately existed between the two peoples.

A New Korea and Its People

This account of Korean patriotism in connection with the present affair, though limited to certain aspects of its manifestation, will be sufficient to enable readers to appreciate the peculiar character of the Korean problem and the successful endeavours of the Japanese Government in solving difficult problems. The difficulty of fusion of two peoples into a national consciousness has been experienced all too frequently in the past both in the West and the East. In the relationship between the two peoples of Japan and Korea, however, that difficult task is being accomplished, as if by a miracle, through forces created by the impetus of the China Affair. We cannot but be reminded, on the one hand, of the excellence of the political principles originating in the ideal of the moral Empire, the ideal upon which the Japanese Empire has been founded and, on the other, of the insight and wisdom of the Korean people. It can rightly be said, therefore, that the conflict with China has constituted an active medium, if not the basic cause for creating the present

happy state of affairs. There are of course certain fundamental causes which can be summarized somewhat as follows :

1. The political principles in accordance with the Imperial will which would treat all subjects of the Empire with equal benevolence have gradually been appreciated by the Koreans with the realization of concrete measures for promoting their happiness and prosperity.

2. With the augmentation of educational work and the diffusion of the Japanese language, important factors contributing to unfortunate misunderstandings between the two peoples have been removed, lessening the differences in living and enhancing good relationships between them.

3. The sentiment for a return to things ancient in relation to the ethnic origin of and the cultural intercourse between the two peoples has arisen among the Korean intellectuals with the exploration of former history.

4. In recent developments in the situation of East Asia, beginning with the Manchurian Affair, the position of the Empire in that part of the world and its true strength have come to be comprehended by the Koreans.

With regard to the historical significance of these phenomena, further elaboration may be necessary. For this purpose the message sent to the people in Japan proper by General Jiro Minami, Governor-General, on the closing day of the National Spiritual Mobilization Week, October 19, 1937, is quoted below in outline :

I have been most profoundly moved by the way in which the entire nation has risen in perfect unity to the current emergency, giving full scope to the traditional spirit of the Empire by dissolving all opposition and friction in domestic relations. The significant achievement of the Imperial Army in action against the Nationalist Government and its Army has much to do with the consolidation along the home front. It is indeed a source of inspiration to me.

In this momentous hour of our history, I wish to remind you, our compatriots in the main islands, that within the unity of the Japanese Empire exist 23,000,000 people in the Korean Peninsula as integral component parts. Those who are aware of the vital importance of the spiritual union of the two peoples in the work of promoting peace and prosperity in East Asia, I am convinced, must appreciate fully the significance of the ardent patriotism demonstrated by our Korean brothers in connection with the present affair. This expression of their patriotism, which has taken different forms, has been done

most spontaneously in all cases; it can only be understood as the consummation of the movement of thought which has become increasingly marked since the Manchurian Affair. Thus between the people in the main islands and the entire people in the peninsula now exists a community of will and sentiment, of pride and self-confidence, of purpose and mission as Japanese subjects.

This month, the month of October of the present year, is a memorable one for the Government-General of Chosen as the month on which the 27th anniversary of its inauguration falls. My mind is filled with a sense of deep gratitude for this spiritual achievement, which is, in reality, no other than the fruit of the endeavours of our predecessors, and which I firmly believe constitutes a way of celebrating the anniversary infinitely more significant and fitting than any elaborate programme.

THE DEPARTMENT OF WELFARE

DEPARTMENT OF WELFARE

AMID the hopes and eager expectations of the nation, the Department of Welfare has come into existence. The circumstances under which the new Department has been formed are closely related with the general situation and the policies of the Government in connection with the present China Affair. As such, this action of the Government constitutes a significant step in carrying out immediate as well as permanent national purposes.

The original plan for the creation of a department designed to coordinate and unify, augment and improve all administrative organs for the promotion of the physical strength and general welfare of the nation was decided upon by the Konoe Cabinet immediately following its formation. After investigation by the Board of Planning, the Cabinet reached a decision on the outline of the measures concerning the establishment of the new Department on July 9, 1937. The Government then created within the Prime Minister's Department a committee composed of members of staffs of various governmental institutions to make preparations with a view to opening the Department of Welfare on October 1st. The necessary budgetary and legislative measures were proposed to and approved at the 71st session of the Imperial Diet.

Meanwhile developments in the China Affair coupled with growing tension in the international situation rendered the future outlook uncertain. It was thought wise to re-examine the former decision concerning the new Department in the light of unexpected changes in internal and external affairs. Subsequent developments in the Chinese situation, however, led the Government to see the impossibility of speedy settlement of the affair, despite the successful military operations and their most satisfactory results, and made necessary the immediate and efficient functioning of the Department in planning for and executing behind-the-line measures during and after the affair, including the demobilization plan. Through these factors the Government was finally prevailed upon to carry out the creation of the Department of Welfare in accordance with the outline formulated by the Cabinet.

Organization of the New Department

In accordance with its mission as an institution designed to

promote the physical strength and general welfare of the nation, the new Department is organized into five Bureaus, Physical Strength, Public Hygiene, Disease Prevention, Social Affairs and Labour, which are responsible for matters relating to national health, social welfare and labour, and a Board of Insurance which is responsible for matters relating to health insurance, accident relief liability insurance for labourers, and other systems of social insurance as well as post office life insurance and post office life annuities. The following is the list of matters coming under the jurisdiction of the Department classified according to the Bureaus and the Board :

1. Bureau of Physical Strength
 - a. Matters concerning planning for the improvement of physical strength.
 - b. Matters concerning measures and institutions for the improvement of physical strength.
 - c. Matters concerning investigations of physical strength.
 - d. Matters concerning physical education and sports.
 - e. Matters concerning infant's, children's and maternity hygiene.
2. Bureau of Public Hygiene
 - a. Matters concerning sanitation in food, clothing and dwelling places.
 - b. Matters concerning hygienic guidance.
 - c. Matters concerning medical and pharmaceutical affairs.
 - d. Other matters relating to public health which do not come under the supervision of other governmental institutions.
3. Bureau of Disease Prevention
 - a. Matters concerning the prevention of infectious, local and other diseases.
 - b. Matters concerning quarantine.
 - c. Matters concerning mental diseases.
 - d. Matters concerning the hygiene in connection with venereal and other diseases detrimental to survival of the race.
4. Bureau of Social Affairs
 - a. Matters concerning social welfare measures and institutions.
 - b. Matters concerning relief and free medical treatment.
 - c. Matters concerning military relief.

- d. Matters concerning the protection of mothers, infants and children.
 - e. Matters relating to other social welfare works.
 - f. Matters concerning employment exchange and supply and demand of labour.
5. Bureau of Labour
- a. Matters concerning labour conditions.
 - b. Matters concerning labour hygiene in factories and mines.
 - c. Matters concerning the general control of affairs in connection with the International Labour Organization.
 - d. Other matters relating to labour.
6. Board of Insurance
- A. Bureau of General Affairs
- a. Matters concerning personnel, documents and accounts.
 - b. Matters concerning actuarial work.
 - c. Matters concerning the planning of social insurance and post office life insurance systems and the planning and general control of hygienic measures for the insured.
 - d. Matters not coming under the jurisdiction of other governmental institutions.
- B. Bureau of Social Insurance
- a. Matters concerning health insurance, accident relief liability insurance for labourers and other systems of social insurance.
- C. Bureau of Post Office Life Insurance
- a. Matters concerning post office life insurance and annuities.

As may be seen from the above-described functions of the new Department, four Departments, those of Home Affairs, Commerce and Industry, Education, and Communications will be directly affected by its creation with regard to matters formerly under their jurisdiction. Of those Departments, the one most affected is that of Home Affairs, as all matters which were under the jurisdiction of the Bureaus of Public Hygiene and Social Welfare Work have now been transferred to the new Department together with many members for the official staff corresponding approximately to two-fifths of its entire number.

The matters transferred from the jurisdiction of other Departments are those relating to the labour hygiene in mines from the Bureau

of Mines, Department of Commerce and Industry, those relating to physical education and sports outside schools from the Section of Physical Education, Minister's Secretariat, Department of Education; those under the jurisdiction of the Bureau of Post Office Life Insurance, including post office life annuities, from the Department of Communications. The jurisdiction of these four Departments, in consequence, has been greatly reduced in scope. In the case of the Department of Communications, however, as the operation of the post office life insurance service, including that of post office life annuities, has been entrusted to it, the canvassing for insurance, the collection of premiums and other matters which have hitherto been operated by the post offices, along with the work of their supervision shall continue to be conducted by it. For these purposes, the Department of Communications is to create an institution for which the necessary expenditure is to be transferred from the Special Account concerning Post Office Life Insurance to the Special Account concerning Communication Services.

As the basic purpose of the new Department is related to a wide range of subjects connected with the physical strength and general welfare of the nation, many matters under its jurisdiction come into close contact with those under the jurisdiction of other Departments, giving rise, as a result, to somewhat complicated questions regarding methods of dealing with such interrelated matters. These, however, are expected to be properly adjusted through consultations and by other methods between the Departments concerned.

When the Cabinet first decided upon the creation of the new Department, under the name of the Department of Health and Social Affairs, it was also decided that the measures should be taken for the establishment of divisions of health and social affairs as subdivisions in the prefectural governments. This question, however, as it will affect the entire organization of prefectural governments, has been left for further careful study; no measures have been adopted for the present in this direction.

Significance of the New Department

The circumstances under which the new Department has come into being and its significance can best be comprehended by studying the question of health, in relation to the destiny of a nation. The question of health, or to state it more exactly, the question of the individual certainly constitutes the basic consideration in national destiny. Promotion of the spiritual life and vitality of a nation is the basic requirement for realizing necessary measures in industrial, economic and defence fields. And on the other hand the pivotal

factor in the question of the individual is health or physical strength.

A popular saying, "A sound mind in a sound body," rightly expresses the relationship between health and spiritual life, the highest of human functions. It therefore becomes exigent for the State to make every possible endeavour to promote the health and improve the physical strength of the nation. Japan has shown little concern in this important matter and administrative and all other measures carried out for this purpose, lacking a consistent guiding principle, have fallen short of positive results. Thus, the gradual lowering of standards in physical strength of the nation has taken place. This deplorable condition in national health in Japan has been clearly indicated by the statistical data in which she stands far inferior to other civilized countries in respect to mortality, conditions of contracting diseases, and the average length of life. Moreover, the spread of tuberculosis among young people, increasing cases of near-sightedness and of dental complications among students and pupils, and the violent increase of muscular weaknesses among those examined for army conscription are not at all encouraging. This state of affairs with regard to national health is by no means in keeping with the leadership Japan is now assuming in East Asia and with her position as one of the leading Powers in the world. In order to fulfil her great mission she must improve her national health and augment her national strength. Hence the creation of one Department specially designed for these purposes.

Obviously, the necessary step that the Government should take along these lines is to coordinate and augment the administrative measures directly concerned. First of all the administrative measures for physical education and sports, environmental hygiene, prevention and treatment of diseases should be coordinated and augmented. For the thoroughgoing realization of the ideal, however, augmentation and adequate arrangement of the so-called social reform measures should go hand in hand with the other measures. For the health or physical strength of a nation is an index by which its living conditions may be discerned. It can be said, therefore, that the lowering of the health standard of a nation shows the existence of irrational elements in its life. Furthermore, such irrational elements not only form problems of physical education and hygiene but also social problems of considerable scope and extent, which call for the augmentation and the adequate arrangement of social reform measures. In other words, the administrative division in charge of public health inclusive of all administrative measures for physical education and sports, environmental hygiene,

and the prevention and treatment of diseases, and the division in charge of social affairs, inclusive of social welfare measures and institutions, free treatment of diseases and various protective measures, employment, labour protective measures, and social insurance should be brought to work in perfect coordination for the purpose of rectifying irrationalities in national life and promoting health and improving the physical strength of the nation. The new Department has now inaugurated measures for the fundamental improvement of this most serious defect of our national life.

The present China Affair is a national undertaking unprecedented in significance and magnitude, and the entire nation is working in one body for the achievement of Japan's ultimate purpose. A matter of especial urgency and importance, in this connection, is to give timely and appropriate relief to the families of those men in the services who are directly participating in this great undertaking so that they may serve at the front altogether free from concern for their home affairs. No less important are the measures in preparation for the possible prolongation of hostilities such as the cultivation of human factors in national defence, the elimination of insecurity in national life which may arise with change in economic circumstances, and the prevention of exhaustion of physical strength of the nation by excessive work—the measures for the maintenance of the spiritual life and vitality of the nation. For this series of measures in connection with the present affair the Department of Welfare is called upon to take immediate and adequate steps along the lines of social and health administration.

The scope of activities of the new Department, as has been made clear, covers the whole range of national life through administrative measures in the fields of public health and social reform, both of which have not as yet fully developed. Consequently, there lie vast duties before the Department. In the planning and execution of immediate measures relating to the China Affair, also in the plans for augmenting productive power which are making steady progress, and finally in planning for a better society the new institution has an important rôle to play.

BUDGET ESTIMATES FOR 1938-39

DEPARTMENT OF FINANCE

BUDGET Estimates for the General Account of the 1938-39 fiscal year were approved by the Cabinet on November 30, 1937. Those for the Special Accounts were formulated at a Cabinet meeting on January 11, 1938. Both have been submitted to the 73rd session of the Imperial Diet. Before presenting a summary of the new budget, the circumstances in which the estimates for 1938-39 were formulated should be understood.

Policy on Compiling the New Budget

On June 29, 1937, prior to the outbreak of the North China Incident, the Cabinet established a policy on compiling the budget for the 1938-39 fiscal year, the major points of which were :

1. In view of the prevailing situation, demands for appropriations for expenditures covering new undertakings by each Department shall be limited to those which are truly urgent and necessary ; the substance of such demands shall be examined thoroughly in order to avoid unnecessary expenses.

2. While endeavouring to effect thrift and retrenchment as far as possible in expenditures for undertakings already decided upon, each Department shall direct efforts to increase annual revenue.

3. With respect to expenditures for undertakings previously determined, even in cases where advances in commodity prices occur, each Department shall endeavour to administer its finances in such a way as to avoid increases in appropriations.

4. Undertakings such as construction and repair work requiring increase in demands for goods shall be avoided as far as possible.

5. Particular attention shall be directed to economy in travelling expenses abroad, purchases of goods from foreign countries, and other similar expenses which constitute cause for increased international payments.

6. An attempt shall be made to adjust the Special Accounts with the General Account with reference to their shares in State expenses since the former are considered to have greater reserves in comparison with those in the latter.

7. When making demands for appropriations, each Department shall be required to produce estimates not only for the 1938-39 fiscal year but also those based on plans for subsequent years.

8. Demands for appropriations by each Department shall be supplemented by reports on requirements of goods involved, giving estimates as accurate as possible.

Although the above policy was determined before the occurrence of the China Affair, the Government intended to direct its efforts to replenishment of national defence facilities while attempting to stabilize the national livelihood. Under those circumstances, the Government was seeking to do its best to expand the productive capacity of the nation and to augment importing power with a view to supplying abundantly those materials essential for the replenishment of national defence equipment. This intention is clearly reflected in each of the above points in the policy on formulation of the budget.

However, the North China Incident broke out in July, and subsequently, in view of the obdurate attitude on the part of China, the Imperial Government was forced to resort to positive measures against the Chinese Army and to cause prompt reflection on the part of the Nanking Government. This fact exerted substantial influence on the previously formulated budgetary policy: the basic policy regarding the budget for the 1938-39 fiscal year was then formulated with the China Affair as the pivotal factor. At the Cabinet meeting held on August 24th, the Government decided to add the following principles to the former policy, preparatory to meeting requirements for funds and goods arising in connection with the affair.

1. With respect to demands for expenditures for new undertakings other than those which are urgent and unavoidable in connection with the China Affair, appropriations shall not be made.

2. The greatest possible thrift and retrenchment shall be observed in the expenditures for undertakings already decided upon excepting those urgently required for national defence.

While the policy in compiling the budget for the 1938-39 fiscal year was being strongly influenced by the China Affair, the operation of the budget for the 1937-38 fiscal year was receiving important modifications. The latter inevitably was expanded. On July 17th, ¥10,198,000 was disbursed from the Second Reserve Fund of the National Treasury to meet expenses of the punitive expeditionary forces by the War Department. At the 71st session of the Imperial Diet which convened at the end of July, appropriations

of ¥512,152,000 were approved. Again, at the 72nd session of the Diet meeting in September, the Special Account for Emergency Military Expenditures was created. It was felt necessary to separate the expenditures for military operations from the General Account so that they could be treated in a special manner, dealing with the entire period in which they are expended—from the beginning to the termination of the China Affair—as a single fiscal term. Under this Special Account, appropriations of ¥2,022,671,000 were granted for Army and Navy expenses (inclusive of reserves). Additionally, expenses totalling ¥9,155,000 connected with the North China Incident were provided from the General Account for the Department of Foreign Affairs.

These military expenditures alone caused an expansion of approximately ¥2,500,000,000 in the 1937-38 budget. Hence the Government, in a Cabinet meeting on October 19th, made the necessary decision of carrying out thrift and retrenchment so far as possible in the operation of the 1937-38 budget. This decision, which formed the basis for the policy on compiling the budget for the 1938-39 fiscal year, may be summarized as follows :

1. Through the General Account and the Special Account, expenditures shall be reduced by ¥73,237,000, and deferred by ¥108,070,000 (inclusive of a surplus to be carried forward to the next fiscal year), making a total of ¥181,307,000.

2. Expenses incidental to the increase in the number of officials in Government offices, the official organization of which has not as yet been authorized, and travelling expenses abroad shall be minimized as far as possible, although the amount to be economized has not been fixed.

3. Hereafter, each Government Department in execution of the 1937-38 budget shall attempt to economize expenditures and shall endeavour to save additional sums beyond the fixed amount to be economized.

Budget Estimates for the 1938-39 Fiscal Year

With a background of all the above-mentioned policies, the estimates for the 1938-39 fiscal year were drawn up. A substantial increase is anticipated in receipts from taxes and other sources in view of the favourable conditions prevalent in the economic world. However, the revenue accounts still show a deficit which is to be met with funds from public loan issues.

1938-39 BUDGET ESTIMATES FOR GENERAL ACCOUNT

(In 1,000 yen)

	Revenue	Expenditures
Ordinary	2,023,028	1,640,336
Extraordinary.....	844,768	1,227,260
Normal revenue ..	150,604	
Receipts from the issue of public loans..	694,163	
Total	2,867,796	2,867,796

The following figures from the budget estimates for the fiscal years 1937-38 and 1938-39 are given for purposes of comparison. The total amount of the 1937-38 budget is ¥ 3,451,895,000 inclusive of the supplementary budget, but this figure includes a sum of ¥ 507,208,000 which has been separated from the General Account and segregated into the Special Account for Emergency Military Expenditures. Therefore, adjusted budget figures, exclusive of the latter sum, are given in the following table.

COMPARISON OF 1938-39 BUDGET ESTIMATES AND ADJUSTED BUDGET FOR THE PREVIOUS FISCAL YEAR

(In 1,000 yen)

Expenditures	1938-39 Budget	Adjusted Budget for 1937-38	Increase or decrease
Ordinary	1,640,336	1,503,284	137,252
Extraordinary	1,227,260	1,441,402	(-) 214,142
Total	2,867,796	2,944,686	(-) 76,890

In the following table, figures for the 1938-39 expenditures are given, classified by Government Departments:

1938-39 EXPENDITURES BY DEPARTMENTS

(In 1,000 yen)

Departments	Ordinary	Extraordinary	Total
Imperial Household	4,500	—	4,500
Foreign Affairs	18,577	10,481	29,059
Home	44,239	192,367	236,606
Finance	637,592	52,846	690,438
Army	165,783	398,810	564,594
Navy	293,382	583,976	677,358
Justice	40,439	2,778	43,217
Education	133,377	10,456	143,833
Agriculture and Forestry	35,437	72,569	108,007
Commerce and Industry	7,273	36,643	43,917
Communications	193,371	22,023	215,394
Overseas	2,413	22,850	25,264
Welfare	64,148	21,476	85,625
Total	1,640,336	1,227,260	2,867,796

In explaining the foregoing figures for the annual expenditures, it must be stated in the first place that the previously established plans for the replenishment of national defence facilities are to be carried out as scheduled, and that expenditures for new undertakings of an urgent nature are duly provided for. A reduction of ¥110,029,000 in the expenditures for previously determined undertakings by the War and Navy Departments is explained by the fact that expenditures for the military forces on the front and operation of naval craft are being disbursed from the Special Account for Emergency Military Expenditures.

With respect to expenditures covering new undertakings, appropriations have been made only for those which are considered truly urgent and essential, in view of the present emergency. Among the new items for which appropriations have been made, the outstanding are the funds for the relief of soldiers' families which increased by ¥40,000,000 and the expenditures for institutions for the protection of soldiers which amount to ¥10,000,000. Furthermore, appropriations were made for several institutions set up outside the Army and the Navy, for the realization of the purposes of the present affair. They include expenses for National Spiritual Mobilization and those for the improvement of the quality of horses offered for requisition. As expenditures necessary for the expansion of productive capacity, appropriations allocated for the training of skilled labourers also reach considerable amounts. Sizable appropriations were also made to cover expenses for survey and exploitation of petroleum resources within the country and abroad, experiments in and industrialization of the manufacture of artificial petroleum and for the establishment of new plants for the manufacture of alcohol, as the importance and necessity of self-sufficiency in liquid fuels has been keenly felt in Japan under the current situation. Due recognition has also been given to appropriations for expenditures regarding air defence and civilian aviation.

In addition, considerable appropriations have been made for the execution of measures for the promotion of exports in view of the present status of Japan's international trade balance. As to expenses for institutions concerned with the welfare of rural communities, allocations were made for the establishment and maintenance of land owning farmers, for special assistance to plans for the economic recovery of agrarian villages, for engineering undertakings in agricultural districts and for various other farm relief undertakings. These appropriations have been made on a continuative basis. Appropriations were also made for several new items, such as expenses for the development of agricultural resources, for the enforcement of

laws concerning farm land, for institutions assuring liberal supply of important fertilizers, for the improvement in financing of fishing villages and for the acceleration of self-sufficiency in fodder. Moreover, the First Reserve Fund of the National Treasury has been increased by ¥12,000,000 and the Second by ¥25,000,000.

The Government has thus made earnest endeavours to appropriate adequately for the expenses which are considered necessary in connection with the present Affair, while simultaneously, it has attempted to economize expenditures in general in line with the following principles:

1. To avoid appropriations for expenses for such undertakings as construction, repairing and engineering works, which are liable to cause increases in consumption of goods, in order to assure adequate supply of materials for military operations.

2. To direct every possible effort to reducing travelling expenses abroad and other such expenses which cause increases in international payments, in view of the prevailing circumstances.

In this manner, the Government has achieved an appreciable saving of ¥60,336,000 and a deferment of ¥80,731,000, totalling ¥141,068,000 in the expenditures previously determined for undertakings.

The following table gives figures for the estimated revenues in comparison with those for the previous fiscal year:

1938-39 REVENUE ESTIMATES COMPARED WITH ADJUSTED
ESTIMATES FOR THE PRECEDING FISCAL YEAR

(In 1,000 yen)

Sources	1938-39 Estimates	Adjusted Estimates for previous fiscal year	Increase Decrease
Ordinary:			
Taxes	3,423,424	2,250,722	1,172,701
Stamp receipts	99,592	86,743	12,848
Receipts from Government enterprises and property ...	341,371	331,176	10,194
Contributed from the Special Account of Communications Services	81,500	81,000	500
Contributed from the Bank of Japan	13,066	13,087	1,978
Miscellaneous receipts	33,319	37,033	(-) 3,714

BUDGET ESTIMATES FOR 1938-39

21

Sources	1938-39 Estimates	Adjusted Estimates for previous fiscal year	Increase Decrease
Contributed from Special Account of Funds for educational improvement and agrarian village development	6,755	7,495	(—) 740
Total Ordinary revenues	2,023,028	1,827,259	195,769
Extraordinary:			
Proceedings of sales of Government properties	6,754	6,518	236
Miscellaneous receipts	17,821	45,979	(—) 18,157
Receipts from Temporary Profit Tax	78,836	58,512	20,324
Transferred from Special Accounts	6,700	67,890	(—) 61,190
Other revenues	40,491	54,517	(—) 14,026
Total	130,604	233,427	(—) 82,823
Receipts from the issue of public loans	694,163	827,395	(—) 133,231
Surplus brought forward from the previous fiscal year	—	20,649	(—) 20,649
Total extraordinary revenues	844,768	1,081,471	(—) 236,704
Total revenues	2,867,796	2,908,731	(—) 40,934

A plan for general reform in central and local taxation systems was dropped for the time being, but partial revisions have been effected in the income tax, business profit tax, capital interest tax, succession tax, temporary profit tax and registration tax, wherein alterations had been pending or where revisions were considered appropriate. However, in effecting the present tax revisions the Government carefully refrained from touching fundamental questions regarding the existing taxation system, and furthermore has not held the increasing or decreasing of tax receipts as its principal objective.

Among the items of receipts, reductions in revenue are expected from such taxes as the land tax, textile consumption taxes and import duties, but increases are anticipated in receipts from the income tax, business profit tax, brewery tax and many others, in view of favourable developments in economic circles.

While a decrease is noticeable in the amount transferred from Special Accounts to the General Account, this change is explained by the fact that contributions from the special accounts of the Government-General of Chosen, the Government-General of Taiwan, the Government of Karafuto, Imperial railways and communication services, which are under the General Account for the present financial year, have been transferred to the Special Account for Emergency Military Expenditures for the 1938-39 fiscal year.

The public loan programme for the fiscal year 1938-39 involves the amount of ¥ 694,163,000 which, in recapitulation, is as follows : Earthquake Reconstruction bonds, ¥3,804,000 ; highway bonds, ¥7,946,000 ; Manchurian Incident bonds, ¥124,617,000 ; bonds covering deficits in annual revenues, ¥557,795,000.

In addition to the above, the Government is to issue bonds amounting to ¥ 166,500,000 for Special Accounts which brings the total bond issues for both General and Special Accounts to ¥ 860,663,000. This represents a reduction of ¥ 109,731,000 in comparison with the 1937-38 bond issues, exclusive of those covering the Extraordinary Military Expenditures.

While the explanations dealt with here apply chiefly to the General Account, there are 39 Special Accounts established to meet particular necessities of finance, including the Special Account for Emergency Military Expenditures. Regarding the budget for the Special Account of Emergency Military Expenditures, a supplementary budget for the expenditures for military operations will be introduced to the Diet.

DOCUMENTS CONCERNING NAVAL CONSTRUCTION BY THE POWERS

I

Mr. Joseph C. Grew's Note to Mr. Koki Hirota,

Dated February 1, 1938

THE Japanese Government will be aware that under the London Naval Treaty of 1936 the American Government is precluded from constructing capital ships (i.e., vessels of more than 10,000 tons standard displacement or with a gun of more than eight inches) which exceed 33,000 tons or carry a gun of more than 16 inches, or which are of less than 17,500 tons or carry a gun of less than 10 inches. As regards cruisers (i. e., vessels of not more than 10,000 tons with a gun of not more than eight inches) the American Government is limited to a maximum of 8,000 tons with six inch guns.

The Japanese Government has unfortunately not seen its way to subscribe to the London Naval Treaty, nor has it hitherto felt able to give any assurances that Treaty limits would in practice be adhered to by it.

As the Japanese Government will be aware, the Naval Treaty gives the American Government a right of escalation in the event of building not in conformity with treaty limits by a Power not a party thereto. There have for some time been persistent and cumulative reports, which, in the absence of explicit assurances from the Japanese Government that they are ill-founded, must be deemed to be authentic, that Japan has undertaken or intends to undertake construction of capital ships and cruisers not in conformity with the above-mentioned limits. The American Government has therefore decided that it will be necessary for it to exercise its right of escalation unless the Japanese Government can furnish the aforesaid assurances and can satisfy the American Government that it will not, prior to January 1, 1943, lay down, complete, or acquire any vessel which does not conform to the limits in question, without previously informing the American Government of its intention to do so and of tonnage and calibre of the largest gun of the vessel or vessels concerned.

In view of the forthcoming publication of naval estimates and

necessity for giving other Treaty Powers information as to intended American construction, the American Government will be glad to receive a reply not later than February 20th next. Should no reply be received by that date, or should the reply be lacking in the desired information and assurances, it will be compelled to assume that the Japanese Government either is constructing or acquiring or has authorized the construction or acquisition of vessels not in conformity with the limits referred to. The American Government would thereupon be obliged in consultation with the other Naval Powers with which it is in treaty relations to resume full liberty of action. If, however, the Japanese Government, though engaged in, or intending to engage in, construction not in conformity with treaty limits, were willing to indicate forthwith the tonnages and calibres of guns of the vessels which it was constructing, or was intending to construct, the American Government for its part would be ready to discuss with the Japanese Government the question of the tonnages and gun calibres to be adhered to in future if Japan were now prepared to agree to some limitation. It would, however, be necessary that such consultation should be completed by May 1st.

II

Sir Robert L. Craigie's Note to Mr. Koki Hirota,

Dated February 3, 1938

1. The Japanese Government will be aware that under the London Naval Treaty of 1936 and the corresponding bi-lateral agreements with Germany and Soviet Russia His Majesty's Government in the United Kingdom is precluded from constructing capital ships (i. e. vessels of more than 10,000 tons standard displacement or with a gun of more than 8 inches) which exceed 35,000 tons or carry a gun of more than 16 inches or which are less than 17,500 tons or carry a gun less than 10 inches. As regards cruisers (i. e. vessels of not more than 10,000 tons with a gun of not more than 8 inches) His Majesty's Government is limited to a maximum of 8,000 tons with 6 inch guns.

2. The Japanese Government has unfortunately not seen its way to subscribing to the London Naval Treaty nor has it hitherto felt able to give any assurances that Treaty limits would in practice be adhered to by it.

3. As the Japanese Government will be aware the Naval Treaties give His Majesty's Government a right of escalation in the event of building not in conformity with Treaty limits by a Power not a

party thereto. There have for some time been persistent and cumulative reports which, in the absence of explicit assurances from the Japanese Government that they are ill founded, must be deemed to be authentic, that Japan has undertaken or intends to undertake construction of capital ships and cruisers not in conformity with the above-mentioned limits. His Majesty's Government has therefore decided that it will be necessary for it to exercise its right of escalation unless the Japanese Government can furnish the aforesaid assurances and can satisfy His Majesty's Government that it will not, prior to 1st January 1943, lay down, complete or acquire any vessel which does not conform to the limits in question without previously informing His Majesty's Government of its intention to do so and of the tonnage and the calibre of the largest gun of the vessel or vessels concerned.

4. In view of the forthcoming publication of naval estimates and the necessity for giving other Treaty Powers information as to intended British construction His Majesty's Government will be glad to receive a reply not later than February 20th next. Should no reply be received by that date or should the reply be lacking in the desired information and assurances, it will be compelled to assume that the Japanese Government either is constructing or acquiring or has authorized the construction or acquisition of vessels not in conformity with the limits referred to. His Majesty's Government would thereupon be obliged, in consultation with other naval Powers with whom it is in treaty relations, to resume full liberty of action. If, however, the Japanese Government, though engaged in or intending to engage in construction not in conformity with the treaty limits, were willing to indicate forthwith tonnages and calibres of guns of vessels which it was constructing, or was intending to construct, His Majesty's Government for its part would be ready to discuss with the Japanese Government the question of the tonnages and gun calibres to be adhered to in the future if the Japanese Government were now prepared to agree to some limitation. It would, however, be necessary that such consultation should be completed by April 1st.

III

*Reply of Mr Koki Hirota, Minister for Foreign Affairs, to the
Note of February 5th of the Governments of Great Britain,
the United States and France, Dated February 12, 1938*

I have the honour to acknowledge the receipt of Your Excel-

lency's letter dated 5th February, 1938, in which you set forth your Government's desire regarding the communication of information on the matter of naval construction.

It may be recalled that at the last London Naval Conference the Japanese Government proposed, in the earnest desire to bring about a drastic reduction of naval armament, the total abolition of capital ships and aircraft carriers, which are aggressive in their nature, and at the same time contended that qualitative limitation, if not accompanied by quantitative limitation, would not be calculated to achieve any fair and equitable measure of disarmament. Unfortunately the views of the Japanese Government were not shared by your Government and the other Governments concerned. This fundamental principle entertained by the Japanese Government was, as your Government will be aware, made clear again last year in its reply to the proposal of your Government regarding the limitation of gun calibres. The Japanese Government, always prompted by the spirit of non-menace and non-aggression, has no intention whatever of possessing an armament which would menace other countries. At this juncture, when, as a result of the non-acceptance by other countries of the reasonable desires of Japan in the matter of disarmament, there is as yet in existence no fair disarmament treaty to which Japan is a party, the Japanese Government is of the opinion that the mere communication of information concerning the construction of vessels will, in the absence of quantitative limitation, not contribute to any fair and equitable measure of disarmament and regrets that it is unable to comply with the desire of your Government on this point.

The Japanese Government fails to see any logical reasoning in an assumption on the part of your Government that this Government must be deemed to entertain a scheme of constructing vessels which are not in conformity with the limits provided in the London Naval Treaty of 1936, from the mere fact that it does not dispatch a reply giving the desired information; and is of the opinion that it is not a matter which should concern this Government if your Government, on the basis of whatever reason or rumour, should exercise the right of escalation provided in any treaty to which Japan is not a party.

Your Government is good enough to intimate that, should the Japanese Government hereafter be prepared to agree to some limitation in respect of the tonnage of vessels and the calibre of guns, it would also be prepared to discuss the matter. The Japanese Government, still holding the firm conviction that qualitative limitation if not accompanied by quantitative limitation would by no means

contribute to the attainment of any fair and equitable measure of disarmament, cannot but consider that the discussion suggested by your Government would not conduce in any measure to the realization of its desires concerning disarmament. It is to be added, however, that as the Japanese Government does not fall behind other Governments in its ardent desire for disarmament, it will be ready at any moment to enter into any discussions on the matter of disarmament which give primary importance to a fair quantitative limitation.

THE SITUATION IN CHINA

I

—ADVANCE OF THE IMPERIAL ARMY—

PRESS SECTION, WAR DEPARTMENT

The Shantung Front

(From January 7th to February 4th)

THE Numada detachment which entered Yenchow, an important junction of the Tientsin-Pukow Railway started preparations for an attack on Tsining on January 7th. In cooperation with the Kuwada cavalry unit, this detachment launched a general attack on Tsining at 2 p.m., January 11th. Tsining, the terminus of the branch line which starts from Yenchow, was first guarded by a regiment of the Chinese 29th division which was, however, reinforced later with additional infantry and a battalion of artillery. At 2 30 p.m., January 11th, the Japanese troops occupied the walls of Tsining and entered the town at 3 o'clock. One hour later, the Japanese troops were pressing closely on the Chinese forces which fled from the walled town. The enemy fled to Kiasiang to the west and south. The Japanese kept up their pursuit, and on January 13th reached the stream on the western side of Tangchuakow.

Meanwhile, the Japanese force that was making a southern drive along the eastern side of the Tientsin-Pukow Railway occupied Mengyin at noon, January 4th. The following morning it took Lishan, 36 kilometres south-west of Mengyin. A Japanese military air force visited Hsuechow, the junction of the Lunghai and Tientsin-Pukow Railways at about 4 p.m., January 10th, and effectively bombed the station building, troop trains and military establishments there.

The Japanese Navy landed a marine force near Tsingtao early in the morning of January 10th without meeting any resistance. Toward evening, this force completely cleared Tsingtao of all remnants of Chinese troops, thus firmly securing control of the port town and harbour of Tsingtao.

Following the landing of the marine force, Japanese troops also landed at Tsingtao at 9 a.m., January 12th, and immediately took positions. Peace and order in Tsingtao are thus being maintained by the Japanese forces.

The Nagano detachment which was making an eastward drive along the Shantung Railway left Tungantai, 20 kilometres south-east of Weihssien and entered Kiauchow on January 13th. Early the next morning the detachment started from Kiauchow braving a blizzard, and reached Liuting, a suburb of Tsingtao on the night of January 18th. The following morning the detachment left Liuting and entered Tsingtao at 2 30 o'clock in the afternoon, enthusiastically welcomed by Japanese and Chinese

residents. The Nagano detachment thus established connection between Tsinan and Tsingtao which are over 390 kilometres apart. Prior to the entry of this detachment, a peace maintenance commission was organized by leading Chinese citizens of Tsingtao on January 17th.

The Katayama and Oki detachments left Tsingtao on January 31st and February 1st respectively for north-eastern Shantung province to eliminate remnants of the Chinese troops.

During the afternoon of February 1st, the Oki detachment reached and occupied Laiyang. The unit kept up its northern drive. At noon, February 2nd, the detachment took Tsiahsien and at 5 o'clock on the same afternoon entered Fushan, an important walled town, 12 kilometres south-west of Chefoo, where it disarmed the Chinese militia and captured a large quantity of arms and ammunition left by the enemy.

The Oki detachment left Fushan early in the morning of February 3rd for Chefoo. Its vanguard reached Chefoo at 1.30 a.m., February 3rd, and occupied the port town without meeting any resistance. At 4 o'clock the same morning, the main body of the Oki detachment made a triumphant entry into Chefoo. The detachment stormed the police headquarters and the Public Safety Bureau building where it disarmed about 800 of the Chinese militia. The detachment occupied all Chinese governmental machinery, including the custom-house.

Chefoo stands on the northern coast of Shantung peninsula, occupying the key position on Pechihli Bay and facing Dairen and Ryojun (Port Arthur). It has a population of about 200,000. Consulates are maintained there by Japan, Great Britain, the United States, the Netherlands, Belgium and other foreign countries. Chefoo which is sometimes called Yentai is, next to Tsingtao, the most flourishing trading port in Shantung province. It is also important from the military viewpoint.

Taking advantage of the concentration of the Chinese air force at Loyang in Honan province, the Japanese military air force raided that city on January 30th. Over a dozen Chinese combat planes challenged the Japanese raiders, who, however, succeeded in bringing down 10 which were all of Soviet manufacture of the E-15 type. The Japanese raiders also inflicted heavy damage on hangars and 8 Chinese planes on the ground. The Japanese lost one plane in the engagement.

The Central China Front

Chinese troops were still active in the region south of the Yellow River and north of the Yangtze during the month of January.

Of the Imperial forces, the Iwanaka detachment together with a tank unit left Chuantsiao south of Chuhsien at 10 a.m., January 17th, for Hohsien on the Yangtze above Pukow, which the detachment occupied at 3.45 o'clock the same afternoon. Part of the detachment encountered some 200 Chinese troops armed with about 10 light machine-guns near Tushancho, 33 kilometres north of Hohsien, in the afternoon of January 18th and caused them to retreat toward the west after three hours of fighting.

The Yotsumomiya detachment engaged about 300 Chinese troops in the area north-west of Hungshanchu and Tsientungchu and defeated them. The enemy left about 50 dead.

The Kurabayashi detachment met about 300 Chinese troops armed with light machine-guns at Tzeleichiao, 58 kilometres north-east of Chuhsien on January 16th and put them to rout after a four hour fight.

On January 14th, some 150 Chinese bandits attacked the Soyeda detachment at a point 4 kilometres south of Tzeleichiao, but were repulsed by the Japanese detachment, leaving 10 dead.

The Japanese officer patrols which went to reconnoitre the situation at Holsien were attacked by about 300 "Big Sword" bandits led by Tsien Chentung at a point east of Wukiangchen at 11 a.m., January 14th. On receipt of this information, Japanese reinforcements dashed to the scene and repulsed the bandits who left about 100 dead. Casualties on the Japanese side were negligible.

At 7:30 a.m., January 10th, about 200 Chinese troops made a counter-attack on the Soyeda detachment at Taishanling, 20 kilometres north-west of Chuhsien, but were repulsed with heavy losses.

From December 20th, 1937, to January 22nd, 1938, remnants of Chinese troops in the region north of the Yangtze were so active that no less than 22 engagements took place between them and the Japanese forces, including the punitive engagements started by the Japanese. The Chinese troops which took part in those engagements exceeded an aggregated total of 10,000. The enemy left 1,368 dead while the Japanese casualties totalled 60. Arms captured by the Japanese included 1 heavy machine-gun, 6 light machine-guns, 2 trench-mortars and 69 rifles.

At about 5:30 a.m., January 16th, some 400 Chinese troops armed with trench-mortars made a counter attack on the Japanese force at Chulungchiao, 15 kilometres north-west of Chuhsien, but were repulsed, leaving 80 dead.

At 8 a.m., the same day, about 800 Chinese troops counter-attacked the Japanese force at Taliuchen, 25 kilometres north-west of Chuhsien, but were repelled by the Japanese within two hours. The enemy left about 150 dead. The Japanese casualties in both engagements were 3 killed and 10 wounded. These Chinese troops belonged to the 158th division although they wore plain-clothes.

The Soyeda detachment which was pushing north along the Tientsin-Pukow Railway from Pukow occupied Mingkuang. On the afternoon of January 20th, the detachment attacked about 200 Chinese troops on the left bank of the Chi River, opposite Mingkuang. On January 25th, the detachment crossed the river in face of the enemy. At 2:30 o'clock the same afternoon, the detachment occupied Liangchiakang and resumed its northern drive.

The left wing of the Japanese force in this region on January 29th launched an attack on 3,000 Chinese soldiers who had taken up positions from Tahanchuang to Wangshan, and toward evening reached a point south of Tahanchuang and Jantengszu. In the engagement, the enemy lost about 1,000 men.

The centre of the Japanese force defeated about 2,000 Chinese troops which had established positions near Chuho station, and at 5:30 o'clock the same afternoon reached Wutien, 2 kilometres north-west of Chuho station, where it engaged fresh Chinese troops. The enemy left

about 800 dead, while the Japanese captured 16 machine-guns, 16 rifles and 300 hand-grenades.

The right wing of the Japanese force kept up its offensive on January 30th and defeated the Chinese troops near Jantengszu about noon, the same day. Toward evening, it advanced to Siweichuang, 2 kilometres north-west of Jantengszu and extended operations in a north-western direction. The Chinese troops confronting the Japanese in this sector totalled about 4,000. Dislodging the Chinese troops from their positions, the Japanese then reached a line connecting the Hsiaosui River (15 kilometres north west of Mingkuang) and Siweichuang. The Chinese 172nd division confronted the Japanese in this sector.

The centre of the Japanese force was now extended from Panwutien to the highway to Fengyang via Chiho station. Part of the Japanese troops in this sector pushed west from Sanhochu (13 kilometres west of Chiho station) and occupied the line connecting Tsungchiapu (11 kilometres north-west of Chiho station), Sihungshan (4 kilometres north of Tsungchiapu) and an elevation west of Huangtienpa, after liquidating about 3,000 Chinese troops. The Japanese also routed some 700 enemy soldiers which had been advancing east in an area west of Chiho station. In the engagements the Chinese left about 700 dead, while the Japanese casualties totalled about 40.

The Japanese troops which had been operating on the left sector passed through Yankuochu (7 kilometres east of Changkuchu) at noon, January 29th, and kept up their northern drive. At 1 p.m., January 30th, they engaged at least 1,000 Chinese soldiers which had been marching southward in an area north of Tafanchia (3 kilometres north-west of Yunghsingchu) and drove them away. Toward evening, the Japanese troops occupied the line between Sanchihlipu (13 kilometres south-east of Tingyuan) and Laojenchang. About 500 Chinese troops guarded Laojenchang, but were routed, leaving about 30 dead.

The Soyeda detachment which had been pushing north along the southern section of the Tientsin-Pukow Railway occupied Lihwaikwan, a key position on the railway at 10 a.m., February 1st.

The Tashiro and Kurabayashi detachments which had been pursuing the enemy from Chiho station inflicted heavy losses on the retreating Chinese in cooperation with the Japanese air force. At 4 p.m., the same day, these detachments advanced near Kuokiangshan (6 kilometres south-east of Kuokiangchan), thus establishing a position favourable for an attack on Fengyang. Meanwhile the extreme left wing of the Japanese troops attacked Tingyuan.

In cooperation with the ground forces which gave fierce chase to the retreating Chinese troops, Japanese military air units were active from early in the morning of February 1st, inflicting heavy punishment on the enemy by showering them with bombs and machine-gun fire. The combined attacks from both the ground and air utterly demoralized the Chinese troops.

On February 2nd, part of the Tashiro and Kurabayashi detachments together with the Inakawa tank unit started an onslaught on Fengyang from Nanerhu. At 11 a.m., the same day the detachments succeeded in

reducing Fengyang and at 12:30 o'clock occupied Pengpu on the Hwai River, halfway between Hsuehchow, the junction of the Lunghai and Tientsin-Pukow Railways and Pukow, southern terminus of the latter line.

The Japanese military air force, in cooperation with the ground forces which had been battering Fengyang and Pengpu, attacked the Chinese positions on February 2nd, bombing and showering machine-gun fire on the retreating enemy. All planes returned to their base safely.

The Morosumi detachment which formed the left wing of the Japanese force and which had been attacking Tingyuan succeeded in reducing it at 9 a.m., February 2nd. The detachment followed up its victory by pursuing the enemy northward.

The Japanese troops successfully cleared the region south of the Hwai River of all Chinese troops by taking Sunchaiyang on the right bank of the Hwai River (about 10 kilometres west of Pengpu) and Shangyao (about 40 kilometres south-west of Pengpu) on February 3rd.

Another Japanese detachment which occupied Yangchow, the entrance of the Grand Canal last December, started operations to eliminate Chinese troops from the regions north and north-west of Yangchow as well as near Yicheng.

II

—FORCES OF THE IMPERIAL NAVY IN ACTION—

PUBLICITY BUREAU, NAVY DEPARTMENT

(From January 3rd to February 6th)

THE Japanese fleet in China waters is maintaining a vigilant watch on all enemy actions. When Chinese troops perpetrated acts of vandalism against Japanese interests in Shantung and when Chinese planned to use Hainan Island as a base of operation, the Japanese fleet took prompt action.

Occupation of Tsingtao

The Imperial Navy has hitherto maintained a sympathetic attitude toward the Chinese in Shantung, which, however, has not been reciprocated by the Chinese troops. The latter not only strengthened their defence works in Shantung province, but carried out systematic vandalism against Japanese interests in the province, looting and destroying Japanese establishments at Tsingtao, Tsinan and other places. Unrest naturally prevailed among the citizens of Tsingtao who left the port town daily in increasing large numbers. The Japanese fleet landed a marine force at Tsingtao early in the morning of January 10th in face of the enemy.

Meanwhile, several Japanese naval planes in cooperation with the marine force flew over Tsingtao and dropped hand bills, advising the Chinese authorities and troops to surrender peacefully. In pursuance of this advice, the enemy hoisted the white flag at the top of "Signal Hill" in Tsingtao. Thus the Japanese marine force occupied Tsingtao without meeting stiff opposition or sustaining any damage.

On January 11th, the Japanese marine force occupied the source of the water supply of Tsingtao at Litsun and the airfield at Tsangkow. The Japanese fleet immediately started operations for sweeping mines and removing booms in the outer and inner harbours of Tsingtao. Part of the waterway through the Great Harbour was already reopened by removing parts of the three Chinese gunboats Chuyu, Tungan, and Tinghai, each 300 tons, and six Chinese merchant-vessels of 3,000 tons each which were scuttled and sunk by the Chinese authorities to block the entrance to the Great Harbour of Tsingtao.

Peace and order are returning to Tsingtao, while Chinese citizens who fled are returning to the port town. Popular confidence is being restored with the firm control over the situation which is being maintained by the Imperial forces.

Occupation of Chefoo

Several Japanese warships entered Chefoo early in the morning of

February 3rd, and at 9:30 o'clock the same morning a marine force was landed without meeting any resistance. No Chinese soldier was to be seen in Chefoo and the surrounding district. Without firing a single shot and without losing a single sailor, the marine force occupied the city. At noon, the same day, the marine force occupied the forts on West Hill and East Hill which dominate Chefoo.

In cooperation with the Japanese military force which had reached Chefoo previously, the marine force undertook maintenance of peace and order in the trading port, occupying all Chinese governmental machinery, including the custom-house, the headquarters of the Chinese garrison and the Chinese police force.

Destruction of Enemy Positions at Yulin

The Japanese naval unit patrolling South China waters gave attention for some time to Yulin Port in the southern part of Hainan Island, which the unit suspected was being used by Chinese junks as base of smuggling operations. At 8:30 o'clock in the morning of January 19th, a Japanese warship entered Yulin Port where, as the result of aerial reconnaissance, it was learned that a large number of Chinese junks were at anchor. The warship sent an inspection party to the shore in a vedette-boat and a cutter. While the two boats were proceeding toward the shore, they were fired on by Chinese troops hidden in bushes with machine-guns and rifles, whereupon they returned the fire. The Japanese warship also shelled the Chinese machine-gun emplacements, destroying the Chinese positions and putting the Chinese troops to rout. In the engagement, three members of the inspection party were slightly injured. As the result of the visit to the Port, the Japanese warship ascertained that forts were under construction round Yulin Port.

The Japanese Naval Air Force in China

During the period from January 3rd to February 7th, the Japanese Naval Air Force in China devoted particular attention to the Canton-Hankow Railway, over which the Chinese authorities had been making frantic efforts to transport to the interior the arms and ammunition imported through Hongkong. Chinese lines of communication throughout Kwantung province were successfully bombed.

Additionally, in North China Japanese naval planes participated in the reduction of Tsingtao and visited and bombed points along the Lunghai, Tientsin-Pukow and Shantung Railways including Haichow and Hsuehow. In central China naval air units visited Hankow and Nanchang, capital of Kiangsi province, in particular, where they bombed and destroyed enemy planes and air fields and took part successfully in several aerial engagements.

THE 73RD SESSION OF THE IMPERIAL DIET

—Ministerial Addresses of January 22, 1938—

ADDRESS OF

PRINCE FUMIMARO KONOE, PRIME MINISTER

THE New Year is with us again amid the storm and stress of the China Affair. Today, as we face a momentous crisis at this session of the Imperial Diet, before stating the views of the Government I have the honour to wish with you a long life to our Sovereign and prosperity and happiness to the Imperial Household. I have been moved beyond words by the Imperial Message graciously granted at the opening session and by the deep concern shown by His Majesty over the present situation.

It is scarcely necessary for me to say that Japan's immutable national policy aims at the construction of permanent peace in East Asia on the unshakable foundation of close cooperation between Japan, Manchoukuo and China, contributing thereby to the cause of world peace. The adoption some time ago of our definite stand to deal no longer with the obdurate Kuomintang Government and to exert ceaseless efforts in promoting friendly relations with the Powers was fully in keeping with our national policy. In the interests of world peace we take pleasure in the fact that the tripartite Anti-Comintern Agreement between Japan, Germany and Italy was completed through the participation of Italy last fall.

Now that more than half a year has elapsed since the outbreak of the present conflict, the fields of hostilities have been extended from North China to Central and South China where the valorous and daring operations of the Imperial forces have brought us victory after victory. Thus Nanking fell quickly into our hands. The situation is now developing most favourably for Japan. While this is of course due to the August Virtue of our Sovereign, I am profoundly grateful for the loyalty and courage of the officers and men of the Imperial forces at the front and for the ardour and enthusiasm of all our people at home.

The Government looks forward to the emergence of a new Chinese regime which may really be counted upon to cooperate with Japan, with a view to adjusting Sino-Japanese relations, assisting in the reconstruction of China, and thereby in laying a firm foundation for permanent peace in East Asia. Needless to say, there will be no

change in Japan's policy to respect the sovereignty and territorial integrity of China and the legitimate rights and interests of third Powers in that country.

The mission of Japan as the stabilizing force in East Asia has increasingly become greater; her obligations have grown heavier. In order to fulfil this mission and to discharge these obligations, we must be prepared to make still greater sacrifices than heretofore. Without such determination our future will only be dark. To bear such sacrifices is, I believe, a noble duty that we of the present generation owe to posterity.

With this conviction the Government is striving with all its might to deal with the China Affair for the achievement of the desired end. And for that purpose, it is also essential for the Government to complete national mobilization both in material and spiritual terms and to execute the various necessary measures. The Government is convinced, therefore, that the replenishment of armaments and the ample provision of financial resources are matters of prime importance. Accordingly, emphasis has been placed on these points in formulating economic and financial policies. As regards the budget for the coming fiscal year, it has been compiled in such a way as to appropriate as much money and material as possible for the fulfilment of military requirements and to curtail as far as possible the consumption for other purposes of goods and funds having to do with military supplies.

In the field of industry, the basic policies adopted by the Government are to increase the national productive power on a comprehensive basis covering the three countries of Japan, Manchoukuo and China, and in particular to make endeavours toward supplying the articles urgently needed for national defence, simultaneously promoting all the other essential industries and expanding our export trade.

As for the measures devoted to the home front, everything possible will be done not only to keep our officers and men in active service free from all anxieties concerning domestic affairs, but also to provide for the relief of the families of those killed, wounded or taken ill.

Far distant still remains the end of the conflict. We must be prepared for a long period before a settlement is reached. Ours is indeed a gigantic task unprecedented in history. We shall not be able to accomplish this appointed task unless every member of the nation shows the dauntless spirit of gladly and courageously offering himself to the national cause. On this occasion let me assure you that the Government, with consistency, perseverance and a resolute will,

is working toward the successful settlement of the Affair.

With these views in which you will doubtless concur, the necessary legislative and budgetary bills are being presented, for which I earnestly hope your approval will be given.

ADDRESS OF

MR KOKI HIROTA, MINISTER FOR FOREIGN AFFAIRS

AT the last session of the Diet I had the honour to speak on the policy of the Japanese Government regarding the China Affair. Today I desire to address you on the subsequent developments which have occurred in the Chinese situation as well as on our foreign relations in general.

The attitude of the Japanese Government toward the present Affair has been clearly set forth in its statements made public from time to time in the past. Japan has no territorial ambitions in China, nor has she any intention of separating North China from the rest of the country. All she wants is that China, taking a broad view of the situation, will collaborate with Japan toward the fulfilment of the ideal of Sino-Japanese cooperation for the common prosperity and well-being of the two countries. Accordingly, even after the outbreak of the present Affair, we eagerly looked forward to joining forces with China for the purpose of securing peace in East Asia as soon as the Nationalist Government should have discarded its policy of opposition to Japan and Manchoukuo and evinced a sincere desire to work together for this ideal of Japan. However, the Nationalist Government failed to understand our true intentions, and was caught, so to speak, in the trap set by itself, being bound by its commitments to the anti-Japanism that it had fostered for such long years. Unable to act wisely and well with a calm judgment, but relying upon third Powers, or allying itself with Communists, it is even now calling for a prolonged resistance, regardless of the plight of the 400 million people of China whom it has plunged into the depth of suffering and misery. Now the heroic operations of our loyal and valiant forces in the north and in the south, have forced the Nationalist Government to abandon Nanking, its capital, and to flee far up the Yangtze River. Still unrepentant, it persists in its desperate opposition. It is a most lamentable thing for the sake of East Asia as a whole, as well as for the people of China.

Some time ago when the Japanese Government received a proffer of good offices by the German Government to act as an intermediary

for bringing about direct negotiations between Japan and China, it proposed, with a view to affording the Nationalist Government a last opportunity for reconsideration, the following four points as the basic conditions for the solution of the Affair :

1. China to abandon her pro-Communist and anti-Japanese and anti-Manchoukuo policies to collaborate with Japan and Manchoukuo in their anti-Comintern policy.
2. Establishment of demilitarized zones in the necessary localities, and of a special regime for the said localities.
3. Conclusion of an economic agreement between Japan, China and Manchoukuo.
4. China to pay Japan the necessary indemnities.

These items summarized the minimum requirements which were considered absolutely indispensable by the Japanese Government. It was my earnest hope that the Nationalist Government would sue for peace on the basis of these fundamental conditions. However, that Government, blind to the larger interests of East Asia, and ignoring both our magnanimity and Germany's friendly intention, exhibited no readiness to ask frankly for peace, but only sought to delay the matter and ultimately failed to send a reply that could be regarded in any way as sincere. The Nationalist Government having thus wilfully thrown away the last chance placed at its disposal by the Japanese Government, it became clear that there would be no hope of ever arriving at a solution by waiting indefinitely for any reconsideration on the part of the Nationalist Government. It is because of these circumstances that the Japanese Government issued on the 16th of this month the statement that it would from thenceforward cease to deal with the Nationalist Government. As is made plain in that statement our Government now looks forward to the establishment and the growth of a new Chinese regime capable of genuine cooperation with Japan, which it is its intention to assist in the building up of a new and rehabilitated China. I am fully convinced that this is the only way of realizing our ideal of securing the stability of East Asia through Sino-Japanese cooperation.

I desire to avail myself of this occasion to say that in Europe and America there are some who are apt to entertain misgivings regarding Japan's intentions as though she were trying to close the Chinese door, and expel the interests of the Powers from China. Let me state explicitly that not only will Japan respect to the fullest extent the rights and interests of the Powers in the occupied areas, but she is prepared, for the purpose of promoting the welfare of the Chinese people, to leave the door wide open to all Powers and to

welcome their cultural and economic cooperation there. It is earnestly to be hoped that the Powers, by recognizing the new conditions prevailing in China, and by appreciating the propriety of such Japanese demands for necessary and national adjustments as have been submitted, or may be submitted hereafter, in order to meet those conditions, will cooperate for the establishment of a new order in the Far East.

As regards our relations with Manchoukuo, it is the fundamental principle of our national policy to help that country to achieve a healthy progress as an independent State, maintaining all the while its intimate and inseparable relationship with our own. In accordance with this basic principle our Government decided upon the abolition of the extraterritoriality long enjoyed by Japan and transfer of her administrative rights in the South Manchuria Railway Zone. And in the execution of that programme the first treaty was concluded in June, 1936, and the second treaty in November last year, the operation of both of which has proved exceedingly satisfactory. As for the international status of Manchoukuo, because of the various governmental reforms and improvements accomplished through her strenuous efforts exerted with the help of Japan for their materialization, the Powers have come to revise their appraisal of the new State. Italy, first of all, extended formal recognition towards the end of November last, and the mutual extension of formal recognition with the Franco Government of Spain took place in the early days of the following December.

Japan's policy towards the Soviet Union has always been guided by our conviction of the urgent need of placing the relations of the two countries upon a normal footing for the sake of the peace of East Asia. It is in accordance with this policy that we endeavoured within the past year to solve the long pending issue of the revision of the Fishery Treaty; but unfortunately, owing to the attitude of the Soviet authorities, we were obliged to conclude a *modus vivendi* at the year end as in the year before last. I should add, however, that since the Soviet Government is proceeding with the necessary internal preparations for the conclusion of an agreement providing for a revision of the treaty now in force, we are taking steps for the continuance of the negotiation and the signing of the new agreement at the earliest possible date.

This Government attaches great importance to a smooth operation of the Japanese concession enterprises in North Saghalien. Let me say that the Japanese Government will never allow these rights and interests derived from the Soviet Japanese Basic Treaty to be nullified through unreasonable pressure. Again, the relations

between the Soviet Union and China are attracting the special attention of our nation. China concluded in August last a non-aggression pact with the Soviet Union, while members of the Communist International have penetrated all classes of the Chinese, destroying the social order of the country and endangering the stability of East Asia. Japan, ever solicitous for the civilization of East Asia and the welfare of its people, cannot but view the situation with the gravest concern.

In conducting military operations in China, Japan has been exercising special care lest the nationals and the rights and interests of third Powers should suffer. But there have occurred, I regret to say, toward the end of last year the Panay Incident and the Ladybird Incident, involving Great Britain and the United States. While it is needless to say that their occurrence was entirely unintentional, it was feared for a time that these incidents might lead to an alienation of feeling between Japan and those two countries. I rejoice that thanks to the calm and fair-minded attitude taken by the Governments of both countries and the sincerity of our Government and people, the incidents have been brought in each case to an amicable settlement.

Since the outbreak of the present Affair, the United States has always maintained a fair and just attitude, acting on all occasions with such careful regard for the cause of Japanese-American friendship that, despite such mishaps as the Panay Incident, the relations of the two countries, I am happy to say, have suffered no impairment. The importance to the conduct of our foreign affairs of American understanding needs scarcely to be mentioned. We shall continue to do our best towards the furtherance of Japanese-American amity and good will.

As regards Great Britain, there has been no change in the policy of the Japanese Government, which aims at the maintenance of the traditional friendship between the two countries. I hope that the British Government and people, grasping fully the importance of Anglo-Japanese relations, will endeavour to comprehend correctly Japan's position in East Asia and to cooperate with Japan for the furtherance of peace and good understanding between the two nations. At the same time, I desire to urge upon our own people to stand solidly behind this policy of the Government, in view of the seriousness of the general situation.

I am glad to say that Japan and Germany have been brought closer together than ever through such auspicious events as the visit of H.I.H. Prince Chichibu who was pleased to make a tour of that country on his way home from England last year, and also the

cruise of H.I.M.S. Ashigara, which included a call at Kiel. Especially does this Government appreciate the friendly and most sympathetic attitude Germany has taken in consonance with the spirit of the German-Japanese Anti-Comintern Agreement. We will strive to strengthen further the cooperation between the two countries.

From the beginning of the present Affair, Italy, understanding our true motives, has collaborated with us along all lines. It is well known to you how consistently and how energetically the Italian Government supported our country in November last year at the Brussels Conference of the Signatory Powers to the Nine Power Treaty. In connection with the question already mentioned of the settlement of the present Affair, the Italian Government again manifested its sympathetic concern. This Government is most grateful for these proofs of good will on the part of Italy, which had taken actually the same position as Japan in the matter of combating the Comintern, and joined in the German-Japanese Anti-Comintern Agreement in November last. It is a subject for congratulation from the standpoint of securing world peace that Japan, Germany and Italy have come to join forces under the Anti-Comintern banner. This Government will seek to extend further the effective operation of this agreement in concert with Germany and Italy.

In Spain, the civil war which broke out in July 1936 has developed steadily in favour of the regime under General Franco, which has now succeeded in bringing the greater part of the country under its control, and in consolidating its foundations. Moreover, the Franco Government is identified with the Government of this country in the policy adopted against the Comintern. In the light of these facts we have decided to recognize that Government, and the necessary steps to that end were taken early in December last year.

A survey of our foreign trade shows that there has been in the past year a notable increase, as compared with the preceding year, of more than 33 per cent in value as regards imports and 18 per cent in value as regards exports—the total value of imports and exports together exceeding 7,270,000,000 yen, which is an unprecedented sum in the history of our foreign commerce.

Nevertheless, there still remain the economic barriers as heretofore. While endeavouring on the one hand to eliminate these obstacles through diplomatic means by dealing individually with the various countries according to their respective circumstances and the measures employed by them, this Government is exerting on the other hand unremitting efforts to promote our foreign trade by every

means available. During the past year trade agreements have been concluded with British India, Burma, and Turkey. There were also signed in December a Treaty of Commerce with Siam and a supplementary agreement to the Italo-Japanese Treaty of Commerce relating to the Italian colonies. Negotiations are now in progress with other countries for the conclusion of the necessary trade agreements, covering both old and new markets.

A boycott of Japanese goods has been initiated in certain countries owing to misleading Chinese propaganda concerning the present Affair and to the machinations of the Chinese who reside there in large numbers. However, nowhere has it developed into any serious proportions, thanks to the united efforts of the Government and people and the fair attitude of the general public in the countries concerned.

The Japanese Government believes it to be one of the necessary conditions of the peace and harmony and the prosperity of Japan, Manchoukuo and China, and consequently of the entire world, to increase rationally the productive power of those three countries, and to strengthen their economic ties, and at the same time to promote their trade with the rest of the world. For the realization of this purpose the Government is now carefully preparing appropriate plans at home and abroad.

Finally I desire to say a few words on cultural work. In order to promote international friendship and to bring about a real peace among mankind it is necessary that nations should form intimate cultural bonds and cultivate a full understanding of one another's ideals and aspirations. The present Affair is traceable in no small degree to Chinese lack of understanding in this regard. If Japan and China are to build up a lasting friendship, they should understand each other's national conditions and characteristics, and cooperate culturally according to the fundamental spirit of the Orient. Taking this standpoint, the Government intends to carry on in China more intensively than heretofore the cultural work which will serve as a foundation for the permanent peace and prosperity of the two nations. At the same time the Government will not relax its cultural work elsewhere since there is a special need, in the face of the present international situation, of making other peoples better acquainted with our unique culture and the national traits of our people who love justice and peace.

I hope that from what I have now said you have been able to understand the views of the Government regarding the present China Affair and foreign questions in general. In brief, the underlying aim of the foreign policy of the Government is to eradicate the

root of evil in East Asia, to make known throughout the world the justice of our cause, and to contribute toward laying the foundations of world peace. To that end the Government is doing its very utmost. And I trust that you will appreciate the intentions of the Government and will extend your cooperation for the attainment of the objectives of our foreign policy in dealing with the grave emergency that confronts the nation today.

ADDRESS OF

MR. OKINORI KAYA, MINISTER OF FINANCE

I HAVE the honour to explain to you the general features of the 1938-39 budget, its revenues and expenditures, and the general economic situation in this country under the China Affair.

The Government, as you are well aware, in view of the unbending attitude of the Chinese Nationalist Government, has decided to deal with it no longer, but to await the establishment of a new régime in China in order to cooperate with it for fundamental reconstruction in that country. Thus we should be well prepared for the continuation of the present situation and adjust all our policies to meet this state of affairs. Especially in matters of finance and economy the Government and people must act in coordination, and for this special efforts are required.

I believe it to be the fundamental policy of our finance and economy, facing the prospect of prolonged warfare, to be prepared to assure abundant supplies of money and material needed for the struggle while maintaining stability at home. The Government, since the situation became aggravated last year, has adopted various measures for adjusting our finance and economy to the needs of the emergency situation. It intends to continue efforts in order that this policy shall be thoroughly carried out.

In the compilation of the 1938-39 budget, too, the policy has been adopted, in anticipation of prolonged warfare, of concentrating all resources and funds for the satisfaction of military and naval demands. Consumption of all materials connected with munitions in any other capacity than warfare is to be reduced as far as possible. Thus it has been decided that expenditures in all departments except for items necessary to continue the struggle should be kept strictly within what is absolutely necessary and urgent.

The budget compiled in this manner to cover the fiscal year 1938-39 stands at ¥2,876,000,000 in round figures, both in expenditures and revenues.

Comparing this with the budget for the last fiscal year, from which the amount to be transferred to the Special Military Expenses Accounts is deducted, a decrease of ¥40,000,000 is seen in revenue and ¥76,000,000 in expenditures.

In the revenue accounts, regular revenue will be ¥2,023,000,000 in ordinary income and ¥150,000,000 in extraordinary income, totalling ¥2,173,000,000. Comparing this with the revised budget for the last fiscal year, an increase of ¥195,000,000 occurs in the ordinary income and a decrease of ¥82,000,000 in extraordinary incomes, showing a balance increase of ¥112,000,000 in round figures.

This increase in ordinary revenue is estimated on the basis of increases in incomes from taxes, stamps, Government enterprises and Government property. The expected increase in stamp revenue, for example, is ¥172,000,000. These increases will be natural increments due to prosperity in the economic world, while the anticipated diminution will be due mainly to reduction in the amount of funds to be transferred from special accounts to the general revenue—about ¥61,000,000. This is due to the fact that funds will be transferred to the Special Military Expenses Accounts from the special accounts for certain regions—excepting those for the South Seas—and from the Imperial Government Railways and Communication Services Special Accounts. No transfers will be made from these special accounts to the general revenue.

The ordinary expenditures will be ¥1,640,000,000 and extraordinary accounts, ¥1,227,000,000. Compared with the revised budget for the last fiscal year this will show an increase of ¥137,000,000 in ordinary expenditures and a decrease of ¥214,000,000 in extraordinary expenses.

To explain the main features of expenditure estimates, pre-determined plans will be executed for expansion of armaments. At the same time expenses for fresh undertakings too urgent to be postponed have been included. An amount of ¥56,000,000 has been included as necessary for increasing relief and assistance to soldiers and their families and other funds called for by the China Affair, in addition to funds appropriated by the War and Navy Departments for their own measures toward the same end. Other important items are expenditures for air defence, agricultural and mining development, liquid fuel, training of technicians and experts, civil aviation, etc.

In regard to subsidy for local financial readjustments, ¥100,000,000 is appropriated as in previous fiscal years. Funds in reserve have been increased by ¥37,000,000 to cover budget excesses and expen-

ses outside the budget, which may be caused by the present Affair.

Aside from these items, strenuous effort has been made to put off or reduce new appropriations in general. At the same time, out-right savings and postponement of some ¥141,000,000 in outlays have been made in basic expenses.

It has been decided that deficits in the 1938-39 revenue should be met by bond issues, amounting to ¥694,000,000. Additionally, a bond issue of ¥166,000,000 is expected to cover expenses in the Special Accounts of the Korean Government-General, Imperial Government Railways and Communication Services. The total amount of bond issue, therefore, will be about ¥860,000,000, which, compared with the public bond issue scheduled in the revised budget for the last fiscal year, shows a decrease of ¥190,000,000.

In regard to the supplementary budget embracing the provisional military special accounts, the actual appropriations will be submitted to you later.

As to the question of general revision of both the central and local systems of taxation, the Government has been making inquiries and studies, but the outbreak of the China Affair considerably changed general economic conditions and the capacity of the people to bear tax increases, necessitating postponement of the scheme. As for partial revision, however, the Government has submitted bills revising the existing tax schedule.

It is intended on the whole that most of the military expenses of the China Affair should be covered by public bonds, yet it is thought only proper that the people should bear part of the burden through taxes. Thus the Government is now preparing bills for provisional tax increases for presentation to the present session of the Diet.

I wish to take this occasion to say a word on the situation in economic circles under the China Affair. As to the economic policy of the Government for coping with the present situation, we had occasion in both the 71st and 72nd sessions of the Diet to explain and submit various legislative bills which were approved by you and enforced by us. Fortunately, these measures have yielded good results, due to the enlightened cooperation of the people. Despite the aggravation of the situation since then, I am glad to say that things generally are going smoothly in trade, industry, financing, exchange, commodity prices, etc.

At the outset of the China Incident, a certain measure of stringency was seen on the money market, but thanks to prompt disbursement of Government funds and various other measures, the tight money situation has gradually improved; financing is now more or less active. Especially at the end of last year, capital flowed with a liveli-

ness rare in recent years. Since then the situation has traced a normal curve and the conditions to date are quite favourable. I am certain that there will continue to be a smooth movement of money.

In respect to the loan market, the opportunity of its reopening likewise has ripened with the recent loosening of money. Already, flotation of debentures has been decided on in some fields. The Government expects a sound and progressive development in the debenture market.

In order that industrial productivity may be increased for the sake of national defence, the Government has laid particular stress on the proper application of the Emergency Capital Readjustment Law and at the same time has sought to assure abundant supply of capital for the national defence industries by underwriting the debentures of the Industrial Bank of Japan with Government funds and by other measures. The Government will continue to encourage thrift in order to effect accumulation of capital, and will strive to apply the Emergency Capital Readjustment Law in such a way as to render the supply-and-demand relationship harmonious.

As a measure to readjust and improve accommodation of small funds to the needy, the Government has decided to present to the present session of the Diet a People's Chest bill, a Pensions Chest bill, and a bill revising the Mutual Loan Companies Law.

Smooth assimilation of bonds is extremely important at a time when large amounts of bond issues are necessary, both from the financial and national economic standpoints. The Government is deliberating most carefully on the proper manipulation of funds in the hands of the Treasury Deposit Bureau and other Government repositories. At the same time, it earnestly hopes that various private financial institutions and the people in general will support and co-operate with the Government policy.

The forthcoming issue of public loans will be underwritten mainly by the Bank of Japan, so as to render easier adjustments in the monetary situation. The sale of public bonds through post offices and of the premium savings bonds inaugurated last year has met with quite encouraging results. The Government, therefore, will issue these bonds from time to time. It also will strive to encourage the habit of thrift on the part of the people by bank deposits and other means in order to accustom them to the habit of holding Government bonds. On the other hand, effort is being made to increase the bond assimilating capacity of various financial institutions in order that the way may be paved for future issues.

Balancing of international payments and maintenance of stability

in foreign exchanges are assuredly basic financial and economic policies. Surveying the exchange situation since the outbreak of the hostilities in China, it is gratifying to note that the Anglo-Japanese one shilling two-pence level has been kept intact. The Government will continue to maintain that level, and for this purpose it will formulate plans for balancing international payments and for promoting export trade, encouraging the production of gold, and will continue to strive for adjustment in importation of general commodities, reduction of invisible trade balance payments, and economy in the use of gold.

As for the state of commodity prices under present circumstances, it is seen that no very marked rise has taken place. This is due to the low price tendency overseas and economization of consumption among the people at home.

Hereafter, however, it is to be noted that with the increase of Government funds in circulation in connection with the China Affair and adjustments in import trade, the price question will grow more and more important. Thus we see the special need of price adjustments and we will take measures to limit consumption, to encourage the use of substitute goods and to increase production of general commodities, taking into account the supply-and-demand relationship of munitions and other important articles. In the distribution of these goods, too, various measures will be taken.

The Government, at the same time, will strive to check hoarding of goods for speculation or profiteering and will, if necessary, expand the scope of the maximum price regulation which is at present in force in regard to some commodities.

The essential point in all these endeavours, however, is that the people themselves should resolve to cooperate with the Government for the sake of national welfare. The nation has made tremendous strides in building up its economic strength but in order to prosecute the policy of prolonged warfare hereafter, it is necessary that this strength should be increased and concentrated toward the attainment of the final goal.

In order that this may be effected without entailing any impairment in the maintenance of national economy, expansion in productive capacity, balance of international payments and adjustment of supply to demand of commodities must be assured. Plans must be carefully laid for coordinated action between the Government and people.

The Government, in striving to execute various concrete measures for these aims, is anxious to avoid any friction arising therefrom. On this point it will do its best, but determination and per-

severance on the part of the people too are the necessary accompaniment of all national progress. So long as the Government and people are wholeheartedly united in this task, I have no doubt but that we shall have nothing to fear in facing the ordeal.

It is hoped that you will give your approval to the budget estimates submitted to you as quickly as possible.